STATE OF MONTANA

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY

REPORT ON AUDIT

Conducted Under Contract By
Janke, Winchell, Ehrlick & Co.
Certified Public Accountants

Fiscal Year Ended June 30, 1980

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

STATE OF MONTANA

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

December 1980

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of Montana College of Mineral Science and Technology for the year ended June 30, 1980.

The audit was conducted by Janke, Winchell, Ehrlick & Company, Certified Public Accountants, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

Honorable Thomas L. Judge, Governor*	
Honorable Georgia Rice, Superintendent of Public Instruction*	
Dr. John A. Richardson, Commissioner of Higher Education*	
Shelly A. Hopkins	1981
Jeffrey B. Morrison	1987
John L. Peterson	1982
Lewy Evans, Jr.	1983
Lola Hansen	1984
Mary Pace	1985
Ted James	1986

* ex officio members

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY

LOCAL EXECUTIVE BOARD

Walter V. Nelson	1981
John W. Whelan	1982
Mrs. Blanche A. Copenhaver	1980

ADMINISTRATION

Dr. Fred W. DeMoney	President
Victor D. Burt	Director of Fiscal Affairs

SUMMARY OF RECOMMENDATIONS

As a separate section in front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of Montana College of Mineral Science and Technology is included as a separate section directly following the financial statements.

Consult with the bond indenture trustee and its legal counsel to provide for an amendment to the indenture which would extend the audit date deadline. 7

Agency Reply: Disagree. See page 22.

Contact the Department of Administration and attempt to resolve the conflict between the Montana Administration Manual and the AICPA industry audit guide regarding accruals of capital expenditures. 8

Agency Reply: The Commissioner's Office is in contact with the Department of Administration. See page 22.

Establish written office and accounting procedures in the Grants and Contracts Office and the Financial Aid Office. 8

Agency Reply: Concur. See page 22.

JANKE, WINCHELL, EHRLICK & CO.
certified public accountants

James N. Janke, CPA
James P. Winchell, CPA
Darrell E. Ehrlick, CPA

720 North 30th Street
Billings, Montana 59101
(406) 245-5136

Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of Montana College of Mineral Science and Technology as of June 30, 1980, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Montana College of Mineral Science and Technology as of June 30, 1980, and the changes in fund balances and the current funds revenues, expenditures and other changes for the year then ended, in conformity with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year.

September 5, 1980

Janke, Winchell, Ehrlick & Co.

JANKE, WINCHELL, EHRLICK & CO.
certified public accountants

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James P. Winchell, CPA
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To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial statements of Montana College of Mineral Science and Technology for the year ended June 30, 1980, and have issued our report thereon dated September 5, 1980. As a part of our examination, we made a study and evaluation of the College's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his examination of the financial statements.

Our examination of the financial statements made in accordance with generally accepted auditing standards, including the study and evaluation of the College's system of internal accounting control for the year ended June 30, 1980, that was made for the purposes set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed conditions that we believe to be material weaknesses, excluding those which were corrected before they came to our attention. The conditions pertain to bookstore inventory, property records, and written procedures in grants and contracts and financial aid. These conditions are discussed at pages 3 through 11.

The foregoing conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our examination of the financial statements, and this report of such conditions does not modify our report dated September 5, 1980, on such financial statements.

September 5, 1980

Janke, Winchell, Ehrlick & Co.

C O M M E N T S

General

Montana Tech was established at Butte by the Third Legislative Assembly in 1893. It was initially called the Montana School of Mines and in 1965 the name was changed to Montana College of Mineral Science and Technology.

The College offers degree programs at both the graduate and undergraduate levels in the following engineering fields: environment, biology, biophysics, metallurgy, mineral processing, mining, petroleum and engineering science. A graduate program in geochemistry has been established in collaboration with the University of Montana and Montana State University. The College also awards four year degrees in occupational safety and health, society and technology, chemistry and mathematics as well as associate degrees in arts, science and engineering.

Montana Tech is one of six institutions comprising the Montana University System. Accordingly, the College is under the full control and supervision of the seven-member Board of Regents of Higher Education. A local three-member executive board is appointed by the Governor; however, this board is only advisory in nature.

The original campus is located on land donated by citizens and subsequent expansion has been accomplished through further gifts and purchases.

Also located at the College is the Montana Bureau of Mines and Geology which was established as a department of the College by the 1919 Legislative Assembly. The Bureau is charged with furthering the effective utilization of mineral resources through the investigation of their geology, production, treatment

and economics. It disseminates information through publications and by replies to individual inquiries.

The primary sources of revenue to operate the College come from the State's General Fund and University Millage accounts. Other significant sources include student fees, land grant income, auxiliary enterprise operations and Federal, state and private grants, gifts and contracts. The Bureau of Mines and Geology is financed by state appropriations and sales and services revenues. The nature and extent of the revenues from these various sources are depicted in the accompanying financial statements.

Bookstore Inventory

The College counts its bookstore inventory at June 30 of each year and the Bookstore remains closed until the inventory is completed. This allows for a proper cutoff of bookstore activity and provides the proper environment for an accurate inventory count. However, several problems were noted in our testing of bookstore inventory:

1. Test counts by our firm of the June 30, 1980 inventory revealed several errors. At our request, most of the errors were subsequently corrected.
2. An alpha code is used to note the cost on each item in inventory. Both upper and lower case letters of the alphabet are used. The use of both cases sometimes causes errors in the transfer of cost from the inventory item to the count sheet. Also, for some inventory items, only the alpha code is shown on the count sheets with no further description of the items counted.

Although the problems did not significantly affect the reasonableness of the

final inventory, it does indicate improvements are necessary in inventory taking procedures.

Recommendation

We recommend the following:

1. Consideration should be given to preparing formal written instructions for the inventory taking including individual responsibilities, procedures, and the course of action in the event of questions or problems.
2. Business Office personnel should make test counts in each area counted by a different team.
3. Descriptions of all items counted should be noted on the inventory count sheets.
4. Cost codes used should be simplified.
5. At least on a test basis, cost codes should be checked to recent invoices to insure proper costing.

Property Records

During the year ended June 30, 1980, the College converted its accounting for plant, property and equipment to Property Accounting Management System (PAMS). As part of this conversion, all inventory was tagged with an identification number and items less than $200 in cost were eliminated from the property records. An accurate record of plant, property and equipment now exists and we commend the College for its efforts in completing the inventory. However, improvement is necessary in reconciling current additions and deletions in the subsidiary records to entries made in the general ledger capital expenditures accounts.

Recommendation

At least annually, changes to the subsidiary property records should be reconciled to the general ledger capital expenditures accounts.

NDSL Loans to Other College Funds

The Accounting Division of the Department of Administration eliminates all deficit cash balances at year-end by recording inter-entity loans. At June 30, 1980, the NDSL Program had advances of $20,300 to other College funds. It is our understanding that the advances are temporary, usually less than a week and are non-interest bearing. Although the advances are temporary, the College should attempt to avoid making loans from this fund.

Recommendation

The College should work more closely with the Department of Administration in an effort to avoid using Federal funds for inter-entity loans to other College funds.

Peter Potter Loan Fund

The College acts as custodian for the Peter Potter Loan Fund. The corpus of this fund was bequeathed by Dr. Peter Potter and loans from this fund are available to Butte Public High School graduates only. Loan proceeds are to be used for paying the cost of attending any unit within the Montana University System. Because of the custodial nature of this fund, it is included in Agency Funds.

Requirements for proper administration of this fund are set forth in Peter

Potter's last will and testament. Although the College is properly distributing loan funds to qualified students, certain requirements have not been met including provisions which require: (1) a life insurance policy on each loan recipient and (2) that a Butte High School faculty committee review and approve all loans. The College has been in contact with independent insurance companies and the Office of Commissioner of Higher Education in an effort to resolve these problems.

Recommendation

The College should continue its efforts to meet all provisions of the Peter Potter trust document.

Bond Covenants

Section 3.12 of the College's 1970 supplemental bond indenture requires audited financial statements to be furnished to the Trustee within 90 days of the College's fiscal year-end. For the year ended June 30, 1979, the College had not complied with this requirement. College management officials believe that the deadline is presently impractical because of time restrictions resulting from the generation of its year-end adjustments and their subsequent entry into the Statewide Budgeting and Accounting System.

Recommendation

The College should consult with the bond indenture trustee and its legal counsel to provide for an amendment to the indenture which would extend the audit date deadline.

Accrual of Capital Expenditures

A conflict exists between the AICPA industry audit guide, Audits of Colleges and Universities, and the Montana Administration Manual. The Guide requires that only those capital items which have been received prior to year-end should be recorded. The Manual requires that capital items which have been encumbered by year-end should be accrued even if the items have not been received by June 30. An adjustment must be made to SBAS records to present financial statements in accordance with the audit guide.

Recommendation

The College should contact the Department of Administration and attempt to resolve the conflict between the Montana Administration Manual and the AICPA industry guide regarding accrual of capital expenditures.

Office and Accounting Procedures

The Grants and Contracts Office and the Financial Aid Office at the College currently have no formal written policies and guidelines regarding office and accounting procedures. Formal policies and guidelines provide useful references when questions arise. In addition, a written document can assist in completing external and internal reviews and facilitates a smooth transition in the event of employee turnover.

Recommendation

The College should establish written office and accounting procedures in the Grants and Contracts Office and the Financial Aid Office.

Prior Audit Findings

We have reviewed the audit findings and recommendations contained in the audit report for the year ended June 30, 1979. Except for the following comments the College appears to have complied with all recommendations or circumstances have changed to make the recommendations inapplicable.

Property Records

Recommendation: We recommend the following:

1. At least annually, changes to the subsidiary property records should be reconciled to the general ledger capital expenditure accounts.
2. Inventoried property should be provided with an identification number.
3. A formal property capitalization policy should be established.

Finding: The College adopted the Property Accounting Management System and in doing so complied with our last two recommendations. However, improvement is needed in reconciling current year's changes between subsidiary records and the capital expenditures general ledger account. See comment at page 5.

Peter Potter Loan Fund

Recommendation: The College should obtain life insurance policies on all Peter Potter loan recipients who presently have loan balances and continue to obtain life insurance

policies on all future recipients.

Finding: This area continues to be a problem. See comment at page 6.

Bond Covenants

Recommendation: The College should consult with the bond indenture trustee and its legal counsel to provide for an admendment to the indenture which would extend the audit date deadline.

Finding: The College remains in violation of this bond covenant. See comment at page 7.

Accural of Capital Expenditures

Recommendation: The College should contact the Department of Administration and attempt to resolve the conflict between the Montana Administration Manual and the AICPA industry audit guide regarding accrual of capital expenditures.

Finding: This continues to be a problem. See comment at page 8.

Office and Accounting Procedures

Recommendation: The College should establish written office and accounting procedures in the Grants and Contracts Office and the Financial Aid Office.

Finding: This continues to be a problem. See comment at page 8.

Final Comments

We have reviewed the comments and recommendations contained in this report with officials of Montana College of Mineral Science and Technology and the Office of the Commissioner of Higher Education.

We wish to express our appreciation to those officials and their staff for the cooperation and assistance we received from them during our audit.

September 5, 1980

Janke, Winchell, Ehrlick & Co.

FINANCIAL STATEMENTS

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
Balance Sheet
June 30, 1980

	CURRENT FUNDS							PLANT FUNDS		
	GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES	STUDENT LOAN FUND	ENDOWMENT FUND	AGENCY FUND	UNEXPENDED	RETIREMENT OF INDEBTED-NESS	INVESTMENT IN PLANT
ASSETS										
Cash on Hand and in Bank	$ 1,740	$ -0-	$ -0-	$ -0-	$ 2,540	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Cash on Deposit with State Treasurer	28,689	39,815	345	14,091	4,678	1,537	11,727	395	69	-0-
Receivables:										
Student loans receivable					150,554		69,107			
State appropriations								1,241,581		
Accounts receivable	66,359	5,580	491,847	11,005	154					
Less - Reserve for doubtful loans					(2,647)					
Total receivables	66,359	5,580	491,847	11,005	148,061	-0-	69,107	1,241,581	-0-	-0-
Investments:										
Held by trustees								145,000	119,347	
State of Montana Short-term Investment Plan		7,049	19,885	15,297	102,410	126,472	87,992	338,539		
Other investments							44,193		160,029	
Total investments	-0-	7,049	19,885	15,297	102,410	126,472	132,185	483,539	279,376	-0-
Other Assets:										
Prepaid expenses and advances	27,560									
Inventories				97,304						
Deposits					1,850			5,000		
Total other assets	27,560	-0-	-0-	97,304	1,850	-0-	-0-	5,000	-0-	-0-
Due from (to) Other Funds	245,000	-0-	(224,000)	(20,000)	20,000	-0-	25,000	(57,700)	11,700	-0-
Property, Plant and Equipment:										
Land										242,111
Buildings (Including construction in progress of $369,477)										11,744,140
Improvements										976,882
Equipment										3,543,611
Total property, plant and equipment	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	16,506,744
Total assets	369,348	52,444	288,077	117,697	279,539	128,009	238,019	1,672,815	291,145	16,506,744
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable and accrued liabilities	263,098	29,705	144,202	16,224			43,737	22,853		
Due state agencies	5,098									
Accrued bond interest payable									61,504	
Other liabilities and deposits				7,820			194,282			
Unearned revenues	25,645									
Bonds payable - Note 2										3,393,000
Total liabilities	293,841	29,705	144,202	24,044	-0-	-0-	238,019	22,853	61,504	3,393,000
Fund Balances	75,507	22,739	143,875	93,653	279,539	128,009	-0-	1,649,962	229,641	13,113,744
Total liabilities and fund balances	369,348	52,444	288,077	117,697	279,539	128,009	238,019	1,672,815	291,145	16,506,744

See Notes to Financial Statements.

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1980

	CURRENT FUNDS						PLANT FUNDS		
	GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES	STUDENT LOAN FUND	ENDOWMENT FUND	UNEXPENDED	RETIREMENT OF INDEBTED-NESS	INVESTMENT IN PLANT
Revenues and Other Additions:									
Unrestricted fund revenues -									
College	$ 3,667,077	$ 176,565		$ 688,692					
Bureau of Mines & Geology	1,142,743								
Restricted State Appropriations							$ 1,578,500		
Land grant income							257,855		
Restricted student fees							96,304		
Federal grants and contracts			$ 1,792,708					$ 22,938	
State grants and contracts			46,590						
Private gifts, grants and contracts			283,661			$ 5,184	2,012		
Investment income		2,486	10,039		$ 10,245	2,157	35,567	37,968	
Interest on loans					2,824				
Expended for plant facilities (including $501,505 charged to current fund expenditures)									$ 1,533,565
Retirement of indebtedness									61,000
Other adjustments resulting from inventory of property, plant and equipment									(280,672)
Total revenues and other additions	4,809,820	179,051	2,132,998	688,692	13,069	7,341	1,970,238	60,906	1,313,893
Expenditures and Other Deductions:									
Educational and general expenditures -									
College	3,650,748	166,618	1,859,402	692,275					
Bureau of Mines & Geology	1,157,152								
Indirect cost recoveries			269,230		983				
Loan cancellations and bad debt expenses					3,677				
Collection costs					454				
Expended for plant facilities (including non-capitalized expenditures of $4,000)							1,036,060		
Retirement of indebtedness								61,000	
Interest on indebtedness								215,515	
Total expenditures and other deductions	4,807,900	166,618	2,128,632	692,275	5,114	-0-	1,036,060	276,515	-0-
Transfers Among Funds - Additions (Deductions):									
Mandatory -									
For retirement of indebtedness							(201,700)	201,700	
Bonds payable							414,817		(414,817)
Voluntary transfers -									
Loan fund investment income			6,000		(6,000)				
Other			(8,981)	(27,000)		425	35,556		
Total transfers	-0-	-0-	(2,981)	(27,000)	(6,000)	425	248,673	201,700	(414,817)
Change in Fund Balance	1,920	12,433	1,385	(30,583)	1,955	7,766	1,182,851	(13,909)	899,076
Fund Balance, beginning of year	73,587	10,306	142,490	124,236	277,584	120,243	467,111	243,550	12,214,668
Fund Balance, end of year	75,507	22,739	143,875	93,653	279,539	128,009	1,649,962	229,641	13,113,744
Fund Balance Consists of:									
Unrestricted -									
College	56,883			93,653					
Bureau of Mines & Geology	18,624								
Designated		22,739			79,542		213,381		
Quasi-endowment						18,000			
Endowment						110,009			
Restricted			143,875		199,997		1,436,581	229,641	202,435
Net investment in plant									12,911,309
Total fund balance	75,507	22,739	143,875	93,653	279,539	128,009	1,649,962	229,641	13,113,744

See Notes to Financial Statements.

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
Statement of Current Funds Revenues, Expenditures and Other Changes
For the Year Ended June 30, 1980

	GENERAL OPERATING FUND	DESIGNATED FUND	RESTRICTED FUND	AUXILIARIES FUND
Revenues:				
Tuition and fees	$ 668,220	$ 7,654		
State appropriations				
College	2,713,653			
Bureau of Mines & Geology	930,717			
Indirect cost recoveries	270,213			
Federal grants and contracts - College			$ 1,584,626	
State grants and contracts			46,877	
Private gifts, grants and contracts			227,899	
Auxiliary enterprises				$ 688,692
Sales and services -				
College	9,855	168,911		
Bureau of Mines & Geology	212,026			
Other	5,136	2,486		
Total revenues	4,809,820	179,051	1,859,402	688,692
Expenditures:				
Instructional	1,797,336		5,728	
Organized research			1,470,887	
Academic support	277,230		105,264	
Student services and aid	385,892		29,513	
Operation and maintenance of plant	618,904		17,102	
Institutional support	643,061	166,618	16,692	
Scholarships and fellowships	118,829		195,632	
Auxiliary enterprises			18,584	692,275
Recovery from Bureau of Mines & Geology	(190,504)			
	3,650,748	166,618	1,859,402	692,275
Independent operations -				
Bureau of Mines & Geology	966,648			
Services provided by College	190,504			
Total expenditures	4,807,900	166,618	1,859,402	692,275
Transfers and Other Changes - Increase (Decrease)				
Voluntary transfers -				
Loan fund investment income			6,000	
Other			(8,981)	(27,000)
Excess of restricted receipts over transfers to revenue			4,366	
Total transfers and other changes	-0-	-0-	1,385	(27,000
Net Increase (Decrease) in Fund Balance	1,920	12,433	1,385	(30,583)

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Basis of Accounting

To the extent that current funds are expended to acquire plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal acquisitions and/or replacements of equipment; and (2) mandatory transfers, in the case of required provisions for debt amortization and interest.

In accordance with accepted accounting principles for colleges and universities, the College does not provide for depreciation of physical properties.

Tuition and fees revenue (net of refunds) include remissions and waivers charged to scholarships and fellowships. This amounted to $118,829 for the year ended June 30, 1980.

Fund Accounting

In order to observe limitations and restrictions placed on the use of the resources available, the accounts are maintained in accordance with the principles of "fund accounting." Those principles require that resources be classified, for accounting and reporting purposes, into account groups (funds) in accordance with the activities or objectives specified for the resources. Accounts are separately maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are distinguished from unrestricted funds or designated funds allocated for a specific purpose by the College or its Board.

Description of Funds

The current funds are used primarily to account for transactions which are expended in performing the primary and support objectives of the College and the Bureau of Mines; i.e., instruction, research, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships, independent operations, and auxiliary activities. Operating funds are comprised of the following:

1. The General Operating Fund which is used to account for those transactions related to the College's State appropriated budget.

2. The Designated Fund which is used to account for transactions of the Computer Center, Continuing Education and Motor Pool Funds. The resources of these funds have been designated for specific purposes by the Montana State Board of Regents.

3. The Restricted Fund which is used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended. Receipts of the Restricted Fund are reported as revenues only to the extent expended for current operating purposes in the Statement of Current Funds Revenues, Expenditures, and Other Changes.

4. The Auxiliaries Fund which is used to account for those transactions of substantially self-supporting activities that primarily perform a service to students, faculty, and staff. The general public may be served by some auxiliary enterprises. Auxiliary enterprises include, but are not limited to, student housing, the bookstore and gate receipts from intercollegiate athletics.

Federal funds provided to the College and accounted for in the Restricted Fund and the Student Loan Fund are subject to review and audit by Federal agencies.

The nonoperating funds consist of the Student Loan Fund, the Endowment Fund, the Agency Fund, and the Plant Funds.

The Student Loan Fund, partially financed by the Federal Government, is used to account for transactions primarily related to loans to students. Provisions of the Federal loan program stipulate that:

1. The College match one-ninth of the Federal contributions.

2. A portion of the loan principal and interest (maximum of 15% per year) will be cancelled if the recipient completes certain employment requirements. These cancellations are absorbed by the Federal Government.

The Endowment Fund is subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and that only income be utilized. Quasi-endowment funds have been established by the College for the same purpose as endowment funds; however, any portion of quasi-endowment funds may be expended.

The Plant Funds contain the transactions related to investments in institutional properties and include (1) Unexpended Fund, (2) Retirement of Indebtedness Fund, and (3) Investment in Plant Fund.

The Unexpended Fund is comprised of funds which have been appropriated or designated for land, buildings, improvements, and equipment.

Sources of these funds include student building fees, land grant income, and State appropriations. In accordance with the College's bond indenture agreements, the College must make deposits with a trustee to provide for maintenance and repairs of the on-campus student housing and Student Union Building. The College is also making deposits to a separate account with the State Treasurer to be used for maintenance and repairs of the physical education facility.

The Retirement of Indebtedness Fund represents funds on deposit with trustees set aside under the College's bond indenture agreement. Sources of funds are Federal grants and transfers from the Unexpended Fund.

Investment in Plant represents the total of physical properties and related indebtedness. Physical plant and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts.

The Agency Fund is used to account for assets held by the College as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect fund balance.

Statewide Budgeting and Accounting System

The Balance Sheet, Statement of Changes in Fund Balances and Statement of Current Funds Revenues, Expenditures, and Other Changes have been prepared in accordance with generally accepted accounting principles; consequently, these reports differ from the financial information recorded in the Statewide Budgeting and Accounting System.

Note 2 - Bonds Payable

At June 30, 1980, bonds payable included the following:

Bonds payable at 3%, secured by land grant income, student fees and net project revenues, payable in installments through 1996, including $6,000 maturing within one year. (a)	$ 128,000
Bonds payable at interest rates ranging from 7.5% to 9%, secured by land grant income, student fees, and net project revenues, payable in installments through 2001, including $25,000 maturing within one year. (a)	1,055,000
Bonds payable at interest rates ranging from 4.9% to 6.5%. These are general obligation bonds of the State of Montana and are payable in installments through 2008, including $35,000 maturing within one year. (b)	2,210,000
	3,393,000

(a) The Indenture, dated October 1, 1958, and Supplemental Indenture dated April 1, 1970, provide, among other things, that the College will maintain a bond and interest sinking fund account and repair and replacement reserve account, provide audited financial statements of the College to the trustee within a specified period of time as well as to any requesting bondholders, and pledge and appropriate the net revenues of the project, student building fees, and land grant income for the retirement of bonds payable.

(b) The Board of Regents has agreed to provide for repayment of the bonds through certain College revenues. The revenues include resident and nonresident student building fees, land grant income, and other revenues from the operation of residence and student union facilities. However, these revenues are subject to prior pledges of the other bonds payable.

The College is also recipient of a Federal debt service grant restricted for use in retirement of bond indebtedness.

Note 3 - Land Grant Status

The Congress of the United States, by the enabling act approved February 22, 1889, granted to the State of Montana 100,000 acres for the College and

provided that all monies received from the sale of lands belonging to this grant, together with proceeds from the sale of timber, oil royalties and other minerals, should be credited to a permanent fund for each of the land grant institutions. It also provided that permanent funds could not be used for any other purpose and must remain forever inviolate as the property of each of the land grant funds.

The College's land grant assets are not reflected in these financial statements, but are shown in the Montana Department of Land's financial statements. At June 30, 1980, 59,606 acres and $1,788,374 remain to benefit the College.

Note 4 - Investments

Invested funds, other than those held by the trustee and certain investments of the Agency Fund, are held by the State of Montana Board of Investments and yield an approximate interest rate of 10%. Investments are stated at cost, which exceeds their aggregate market value by $6,580 at June 30, 1980.

Note 5 - Retirement Programs

Retirement benefits are provided for the academic and certain professional staff through the Montana Teachers' Retirement System (TRS) and all other staff through the Montana Public Employees' Retirement Systems (PERS). Both plans are operated by the State of Montana and membership is compulsory for the respective classes of employees. Contributions for participants and the College are based on a percentage of the participant's salary.

Defined benefits under both plans are based on years of service and final average salary of the participant. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plans has not been determined.

Note 6 - Contingent Liability

The value of unused vacation and sick leave accumulated by employees is not recorded as a liability. At June 30, 1980 most permanent employees could accumulate and carry to the following calendar year two times the maximum number of vacation days earned annually. Unused vacation leave is paid at full value to employees upon termination. Upon termination, unused sick leave earned since July 1, 1971 is paid to the employee at 25 percent value.

AGENCY REPLIES

MANAGEMENT COMMENTS

General Comments:

We have completely reviewed the audit report covering the audit for the 1979-1980 Fiscal Year performed by Janke, Winchell, Ehrlick & Co. and concur in the majority of their recommendations. We make the following comments on their individual recommendations:

Bookstore Inventory

Recommendation:

We recommend the following:

1. Consideration should be given to preparing formal written instructions for the inventory taking including individual responsibilities, procedures, and the course of action in the event of questions or problems.
2. Business office personnel should make test counts in each area counted by a different team.
3. Descriptions of all items counted should be noted on the inventory count sheets.
4. Cost codes used should be simplified.
5. At least on a test basis, cost codes should be checked to recent invoices to insure proper costing.

Comment:

We concur in this recommendation. The Business Office has taken over the bookstore inventory process. This is the second year we have been doing this and we will continue to make corrections and changes in our inventory process and will write up a simple document explaining the inventory procedure for the use of the bookstore and whomever else is interested.

Property Records

Recommendation:

At least annually, changes to the subsidiary property records should be reconciled to the general ledger capital expenditures accounts.

Comment:

We were finally successful in obtaining a property manual from the state of Montana.

We will continue to work on our property control and make whatever improvements are necessary to keep this property record updated. We also, will annually check the subsidiary property records against our general ledger capital expenditure accounts.

NDSL Loans to Other College Funds

Recommendation:

The College should work more closely with the Department of Administration in an effort to avoid using Federal funds for inter-entity loans to other College funds.

Comment:

We do not make it a policy to use Federal funds in any way for loans to other college funds. This is merely an accounting transaction done by state accounting at the end of each fiscal year. The transaction was reversed a week later at the beginning of the next fiscal year.

We will work more closely with state accounting so as not to record this type of accounting transaction on our books at fiscal year end.

Peter Potter Loan Fund

Recommendation:

The College should continue its efforts to meet all provisions of the Peter Potter trust document.

Comment:

Mention has been made in the last two audit reports regarding the college's administration of the Peter Potter Loan Fund. This loan fund, as you know, has no direct connection with the college. We accepted this in order to provide needed loans to graduates of Butte High School who wish to attend college, and since the Financial Aid offices are set up on college campuses to administer loan funds, we felt we had the expertise to administer this loan fund.

We have requested the Commissioner's Office to have their attorney review this trust agreement to see what possibility there is to change it so that we can better accomodate the students it is intended to serve. In the meantime, we have finally been successful in contacting a large insurance company that will write a group policy to cover the loans made under this program. This insurance is quite expensive and the cost of it will have to be paid out of the trust agreement which will have the effect of somewhat limiting the number of students who can take advantage of this loan fund.

The trust agreement also requires that a high school faculty committee review

all loans. We had contacted the high school previously. They were not interested in reviewing and approving these loans since they do not have people with the expertise needed. They recommended that our financial aid office act in this capacity and that is what we have been doing.

We have, since, again contacted the high school and relayed to them the comments made in our audit. In turn, they have contacted one of their counselors and he is going to work with our financial aid office in reviewing and approving these loans. We would hope that these procedures will satisfy the trust agreement of this loan fund until such time as we can review the agreement and possibly have it changed.

Bond Covenants

Recommendation:

The College should consult with the bond indenture trustee and its legal counsel to provide for an amendment to the indenture which would extend the audit date deadline.

Comment:

We have checked with our bond indenture trustee, our legal counsel and our financial advisor for this bond indenture. They all concur that to have this particular part of the bond covenant changed would be very expensive and they see no problem in operating the way we have in the past. As long as we continue to meet the financial commitments of this bond indenture, which we have done since its inception, they see no problem with this.

Accrual of Capital Expenditures

Recommendation:

The College should contact the Department of Administration and attempt to resolve the conflict between the Montana Administration Manual and the AICPA industry guide regarding accrual of capital expenditures.

Comment:

This same recommendation was in our last audit report and our reply has not changed substantially. We are working with our Commissioner's office and have also worked with the Department of Administration. It is my understanding that they are planning on recommending legislation which should satisfy this audit exception.

Office and Accounting Procedures

Recommendation:

The College should establish written office and accounting procedures in the Grants and Contracts Office and the Financial Aid Office.

Comment:

We have currently completed the Office and Accounting Procedures manual for

the financial aid office and are in the process of drafting the same for our Grants and Contracts office.